WELFARE-TO-WORK ISN’T WORKING

Time for a radical re-think

Summary

Welfare-to-work policies have nearly always been based on the false premise that there are plenty of jobs available throughout the UK. And welfare reform is often justified by the claim that there are insufficient financial incentives to get a job.

But despite the recent economic recovery, much of industrial Britain still has a weak labour market. Here, and elsewhere, the traditional basis of welfare-to-work is fundamentally at odds with reality.

The Coalition government’s Work Programme adds little to employability, especially for those with poor skills or poor health. Hounding the unemployed delivers no extra jobs and is deeply distressing for too many men and women. Devolving the same policies and practices down to local partners – the approach now being touted – misses the point.

What is needed is a clearer focus on growth and jobs in Britain’s weaker local economies and a strategic re-think about the purpose of welfare-to-work, with a new commitment to addressing the obstacles of low skills and poor health.
WHAT’S WRONG WITH WELFARE-TO-WORK?

Blind to weak local economies

Welfare-to-work policies have traditionally been based on the assumption that if benefit claimants can be encouraged, cajoled or supported into looking for work, they will find work. Likewise, many of the welfare reforms that are underway are founded on the assumption that if claimants can be incentivised to look for employment, they will find employment.

These assumptions are unrealistic in areas where jobs are hard to come by.

Raising work incentives and insisting on ever-more job search activity might have a role in the parts of Britain where there are plenty of jobs but completely misses the point in so many areas with weak labour markets and limited job growth.

- The health of the economy varies from region to region and, even more starkly, from one town to another
- Some places – not least much of industrial Britain – have suffered from years and years of job loss
- In the weakest local economies, worklessness is far more extensive than just those out-of-work on Jobseeker’s Allowance
- In older industrial Britain, vast numbers of men and women with health problems or disabilities have been parked on incapacity benefits

In weaker local economies, pressurising unemployed people to find work doesn’t increase the number of jobs. Nor does it improve their employability.

Many places across Britain, including most older industrial areas, suffer from a shortage of jobs. The overall out-of-work benefit claimant rate, which includes all the men and women of working age on Jobseeker’s Allowance, incapacity benefits (these days Employment and Support Allowance) and Income Support as a lone parent, offers the best guide to the imbalance in local labour markets.

- There is huge variation in out-of-work claimant rates across the country
- Local authority areas in older industrial Britain often have out-of-work claimant rates approaching or exceeding 15 per cent
- In much of southern England the equivalent rate is just 5 per cent
Out-of-work benefit claimant rate, by local authority area, November 2013

% of all adults of working age (16-64)

Source: DWP
A Work Programme that’s barely working

The Work Programme is the Westminster government’s flagship initiative to assist claimants back into work. The problem is that the Work Programme is having only modest success and hardly any at all with Employment and Support Allowance (ESA) claimants – the former incapacity claimants who make up such large numbers in older industrial areas.

The Work Programme got off to a bad start when early figures published by the government appeared to show hardly any participants finding work. These early figures were misleading – the truth was that big early success rates were never expected.

More recent statistics suggest that, at least for the unemployed on Jobseeker’s Allowance, the Work Programme is now on track. In its June 2014 report the Employment Related Services Association, which represents the welfare-to-work industry, found that 550,000 jobseekers had entered employment via the Work Programme. Likewise, the Centre for Economic and Social Inclusion (CESI), an independent body, found that nearly one in four of those participating in the Work Programme managed to get a ‘sustained’ job outcome lasting at least six months. The National Audit Office, reporting in July 2014, took the view that for JSA claimants the Work Programme is performing as well as its predecessors.

Even so, it is worth remembering just how modest the Work Programme targets are:

- The official target is still that only 36 per cent of Work Programme participants will secure sustained employment
- By implication, even the government expects that 64 per cent of Work Programme participants will fail to find sustained work

If the government now claims the Work Programme is a success this is because it set the bar so low. The reality is that even after two years on the scheme at least half of all Work Programme participants never find a job, and if they do find work the job often doesn’t last.

An independent evaluation of the Work Programme produced in September 2013 has yet to be published, allegedly because of ministerial opposition. The press has reported that the evaluation found that nearly 50 per cent of the providers themselves consider the Programme to be either ‘very ineffective’ or ‘somewhat ineffective’, compared to only 24 per cent who think it is ‘very effective’ or ‘somewhat effective’.

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1 Work Programme Performance Report, ERSA, June 2014
2 Work Programme statistics: Inclusion Analysis, CESI, June 2014
3 The Work Programme, National Audit Office, July 2014
4 The Introduction of the Work Programme, National Audit Office, January 2012
5 Work Programme not meeting needs of unemployed, Daily Telegraph, 12 March 2014
Failing the sick and disabled

In its handling of incapacity claimants on Employment and Support Allowance, the Work Programme has proved an abysmal failure:\(^6\):

- Only around 6 per cent of ESA claimants who have shifted over from Incapacity Benefit have found sustained employment after two years
- Only some 11 per cent of new ESA claimants have found sustained work after two years
- The DWP target – itself only a derisory 15 per cent – has not been hit in every contract with Work Programme providers

The Work Programme is based on payment-by-results. Harder to help claimants, such as those on ESA, attract larger payments but the payment structure inevitably promotes ‘creaming and parking’ – providers processing and being paid for unemployed people with the least problems and avoiding those furthest from the jobs market.

CESI concluded that “the Work Programme funding model is set up to offer a minimal service and poor employment outcomes for participants who claim Employment and Support Allowance”\(^7\). CESI also argued that some 11 per cent of ESA claimants on the Work Programme would have secured a ‘job outcome’ even if the Programme had never existed\(^8\).

The National Audit Office\(^9\) points to a number of flaws in contracts and performance measures and to less than expected being spent on the more difficult payment groups.

The knock-on consequence is that with funding tied to performance, and therefore a big under-spend on the relatively expensive ESA client group, spending on the Work Programme as a whole has run below expected levels. This is a symptom of failure, not success.

The Work Programme underestimates just how much time and resources are needed to make an impact on the sick or disabled, who are often the very furthest from the labour market. Many of these men and women need help not only in managing their health but also in upgrading their skills and qualifications. Some also need a phased and supported reintroduction to employment after so many years out-of-work.

\(^6\) Work Programme statistics: Inclusion Analysis, CESI, June 2014
\(^7\) Work Programme statistics: Inclusion Analysis, CESI, March 2014
\(^8\) Making the Work Programme Work for ESA Claimants, CESI April 2014
\(^9\) The Work Programme, National Audit Office, July 2014
All stick and no carrot

The Work Programme is largely failing to invest in people and skills, instead simply hounding welfare claimants to polish their CVs and send off more and more wasted job applications. The focus is overwhelmingly on personal responsibility for finding work while wider labour market realities, such as a lack of jobs, are barely recognised.

There is a very large and disturbing rise in the number of claimants being sanctioned for failure to comply with all the conditions of job search and availability, even when to do so might be futile. For example:

- Sanctions on JSA and ESA claimants totalled nearly 900,000 over the twelve months to October 2013.\(^{10}\)
- This was the highest for any 12-month period since JSA was introduced in 1996.
- The monthly sanction rate for JSA has run at over 4.4 per cent under the present Coalition government, compared with around 2.5 per cent for the whole period of the last Labour government.

Perhaps most tellingly, Work Programme participants are almost twice as likely to be sanctioned as to find sustained employment. Up to December 2013:

- The number of Work Programme participants receiving a benefits sanction was 445,948.
- Over the same period, just 239,080 Work Programme participants had a ‘job outcome’.

The government is imposing even more stringent conditions on claimants leaving the Work Programme after two years without finding work. The new scheme – Help to Work – involves compulsory community work. Yet a pilot carried out by DWP found that there is virtually no added benefit from the new scheme. DWP took 15,000 claimants and put half on a community work scheme and left half with jobcentre support. Just 18 per cent on the pilot Help to Work scheme found employment – only 1 per cent more than the group with no intervention.\(^{11}\)

The nature of Help to Work has resulted in more than 350 voluntary organisations boycotting the programme. A number of local authorities have also refused to take part.\(^{12}\)

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\(^{10}\) Briefing: the DWP’s JSA/ESA Sanctions Statistics Release, Webster. D, June 2014
\(^{11}\) The coalition’s “Help to Work” won’t help the jobless, New Statesman, 28 April, 2014
\(^{12}\) Third Sector Online, June 2014
Squeeze, and squeeze again

The Work Programme and the new Help to Work scheme are only part of the huge build-up of pressure being brought to bear on out-of-work claimants. Welfare reform means that the same individuals who are being pushed onto failing welfare-to-work programmes are often at the same time being squeezed financially from other directions:

- Tenants in the private rented sector will mostly have found that their entitlement to Housing Benefit has been cut back – rent ceilings have been lowered, and shared accommodation is now the only way forward for many under-35s
- Those fortunate to live in social rented accommodation may instead have found their Housing Benefit entitlement reduced by the ‘Bedroom Tax’ – a particularly common occurrence among older tenants whose children have moved away
- While those who have gown-up children living at home will have faced bigger ‘non-dependant deductions’ from their benefit entitlement
- ESA claimants in the ‘Work-Related Activity Group’ – that is, all but the most severely ill or disabled – now face means-testing of their benefit entitlement after twelve months, hitting those with a partner in work, a pension income or savings
- Except in Scotland and Wales, where the devolved administrations have made special arrangements, most out-of-work claimants now have to pay a portion of their Council Tax for the first time
- The reforms to Disability Living Allowance (DLA), still in their early stages, will withdraw benefit from many out-of-work claimants – DLA often goes to the same people who claim ESA
- And most working-age benefits are being uprated by less than the rate of inflation

Taken alongside unwelcome and ineffective pressure from welfare-to-work programmes, these reforms add up to little short of a vendetta against many of the most disadvantaged in society. They also hit the least prosperous areas hardest\(^{13}\).

There is no question that the financial incentive to take up employment – virtually any employment – has been ratcheted up. But in Britain’s weaker local economies, where are all the jobs?

\(^{13}\) *Hitting the Poorest Places Hardest: the local and regional impact of welfare reform*, CRESR, Sheffield Hallam University, 2013.
MORE OF THE SAME?

The Coalition’s view

The Coalition government’s view is that the Work Programme is working: unemployment has dropped and the programme has helped 300,000 jobseekers find sustained employment.

The defence against criticism is that the performance of the Work Programme has continually improved since it was launched in June 2011. All contracts, it is argued, have met the minimum performance levels in the third year of the programme.

If the Coalition (or its Conservative element) were to remain in office beyond the 2015 General Election the most likely change to welfare-to-work would be in who administers the programmes. In the wake of the Heseltine report on growth, ministers are keen to devolve more funding streams to Local Enterprise Partnerships in England and a string of City Deals have shifted responsibility for training away from Whitehall.

Labour’s view

Labour has a number of proposals. These include:

- An end to out-of-work benefits for 18 to 21-year-olds and their replacement by a means-tested payment dependent on training
- Eligibility for contributions-based JSA to be restricted to those who have paid National Insurance for five years, instead of the current two
- A ‘job guarantee’ to provide a paid starter job for six months for every 18 to 24-year-old claiming JSA for more than a year, and for every adult claiming for more than two years

Regarding the Work Programme, Labour would do away with the current system of big, centrally commissioned contracts when the current tranche expires. Linked to Labour’s wider emphasis on devolution, services would be bought at a more local level, perhaps by local authorities or Local Enterprise Partnerships. The theory is that these organisations have a better understanding of the barriers to work that people in their areas face and have stronger links with local businesses.
Decentralisation: not enough on its own?

The common strand in emerging thinking between both the Government and Opposition is that the future of welfare-to-work lies in greater devolution of responsibility. Central government, in Westminster and Whitehall, should divest itself of this troublesome responsibility. Local players – the LEPs in England, and no doubt the devolved administrations in Scotland and Wales – should take over frontline responsibility for designing and letting welfare-to-work contracts.

Local administration of an essentially unreformed Work Programme might increase sensitivities to local circumstances but would not address its fundamental shortcomings in weaker local economies:

- If there are simply not enough jobs available, helping one individual to find work will most likely be at the expense of another local jobseeker, with no net effect on overall employment levels
- Welfare reforms designed to raise work incentives are only likely to raise employment in the places where business growth is constrained by the supply of labour
- In the places where worklessness is widespread, many men and women have been detached from the labour market for so long that they require major investment in skills and health

The very basic point – that there are often not enough jobs available – seems to be missed in so much policy debate. Indeed, even Labour thinking often appears wedded to the idea of welfare-to-work as the solution to unemployment, perhaps because in better economic times the last Labour government was the architect of so many ‘New Deals’ for the unemployed.

In good economic times and in the right places, traditional welfare-to-work policies can have a role. In much of older industrial Britain, where full employment was still a long way off even before the 2008 recession, they miss the point. Arguments about the ‘deserving’ and ‘undeserving’ poor also obscure the real issues.

Shifting responsibility for welfare-to-work down to local partners misses the point too. The health of the local economy, and the substance of the programmes, is what really matters.

Transferring responsibility for welfare-to-work from Jobcentre Plus to the private sector contractors who run the Work Programme didn’t work. Shifting responsibility from Whitehall down to local partners won’t work either unless there is a radical shift in what is expected and what is delivered.
A BETTER WAY FORWARD

1. Grow the local economy where jobs are hard to find

The Coalition government has lauded the recent economic recovery, but one report estimated that 80 per cent of new private sector jobs are in London\textsuperscript{14}. Most people in Britain’s industrial areas are not feeling the effects of economic recovery.

The UK economy needs rebalancing – away from an over-reliance on London and financial services and towards manufacturing, other productive services and the regions.

Economic growth will have the biggest effect on claimant numbers if it is concentrated in the places where the shortfall in job opportunities is greatest. Rebuilding the economy in the hard-pressed industrial areas of England, Scotland and Wales would create job opportunities in the places where welfare-to-work programmes presently seem like an irrelevance. It has the potential to slash billions from the Treasury’s spending on welfare.

At least some of the £1bn or so a year that is currently spent on the Work Programme would be better diverted to regional and local economic development.

2. Refocus welfare-to-work on skills and health

Welfare-to-work initiatives still have a role, but it needs radical redefinition.

Welfare-to-work has hitherto provided a mechanism for leaning hard on the unemployed to chase the vacancies that become available but does little to address the underlying obstacles of poor skills or ill-health. The Work Programme intensifies the scramble for jobs and puts pressure on individuals to inundate employers with speculative CVs. It does little to improve the employability of the workforce.

If welfare-to-work is to be successful and have any credibility there needs to be an understanding that investing in people and raising their life chances is the key aim. People furthest from the jobs market need more intensive support to help them gain qualifications and, in many cases, to manage their health problems better as a pre-condition to even looking for work. The current funding model of the Work Programme works in the opposite direction.

\textsuperscript{14} Cities Outlook, Centre for Cities, 2014
3. **Introduce a targeted job creation programme**

The Work Programme has been implemented across the UK without much concern for the geography of labour markets. In areas with few jobs, the programme providers need to be able to offer additional routes to work. There is a good case for a job creation programme to sit alongside more conventional economic development activities.

A targeted job creation programme could:

- Provide additional jobs, especially for individuals such as ESA claimants who otherwise have difficulty in securing employment
- Provide a springboard for individuals to move on to mainstream jobs
- Deliver services of benefit to the local community
- Foster enterprise and initiative in disadvantaged communities
- Target the local areas with the greatest shortfall in job opportunities

It is unlikely that the contractors delivering welfare-to-work programmes in difficult labour markets would find room to object. The *Future Jobs Fund*, scrapped in 2010, was actually a good model, offered value for money and plenty of pointers on what works.

4. **Rein in compulsion, work by consent**

The vilification of the poor and unemployed has reached unprecedented levels. This needs to stop.

The out-of-work claimant rate in much of industrial Britain is so much higher than in the most prosperous parts of South East England not because the working age residents of Britain’s industrial communities are lazy. The imbalance in the labour market in industrial Britain has been caused by years of job destruction.

Most men and women have a fair grasp of their chances of finding work, and the value of the help on offer. Welfare-to-work should be about supporting them in ways they find relevant and appropriate. Too often it has become the mechanism for imposing punitive and unnecessary sanctions, fuelling business for food banks, payday lenders and loan sharks.

Treat the unemployed with dignity, offer them the practical help they need, and make sure there are jobs for them to go to.
CONCLUSIONS

The Work Programme is wasting resources by mostly doing the wrong things. In the places where decent jobs (or sometimes any jobs at all) are hard to come by, much of what now passes for welfare-to-work is fundamentally misconceived. Unemployed benefit claimants are being blamed for their own failure when the true cause lies with the weakness of so many local economies. The recent upturn in the UK economy does nothing to diminish the force of this argument.

- Current welfare-to-work policies have little positive impact
- The Work Programme is founded on the false assumption that there are plenty of jobs
- The Work Programme is proving punitive, and public money could be better used elsewhere
- In weaker labour markets the emphasis should be on growing the economy
- Targeted job creation initiatives have an important role to play
- Welfare-to-work needs a new focus on the obstacles of low skills and poor health

The Industrial Communities Alliance is the all-party association representing some 60 local authorities in the industrial areas of England, Scotland and Wales.

The Alliance was formed in 2007 by the merger of the longer-standing associations covering coal and steel areas and also includes a wide range of other industrial areas.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities. The Alliance works with the governments and parliaments in London, Edinburgh and Cardiff, with Brussels, with development agencies and with its own member authorities.

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